

# Idaho Economic Forecast

C.L. "Butch" Otter, Governor

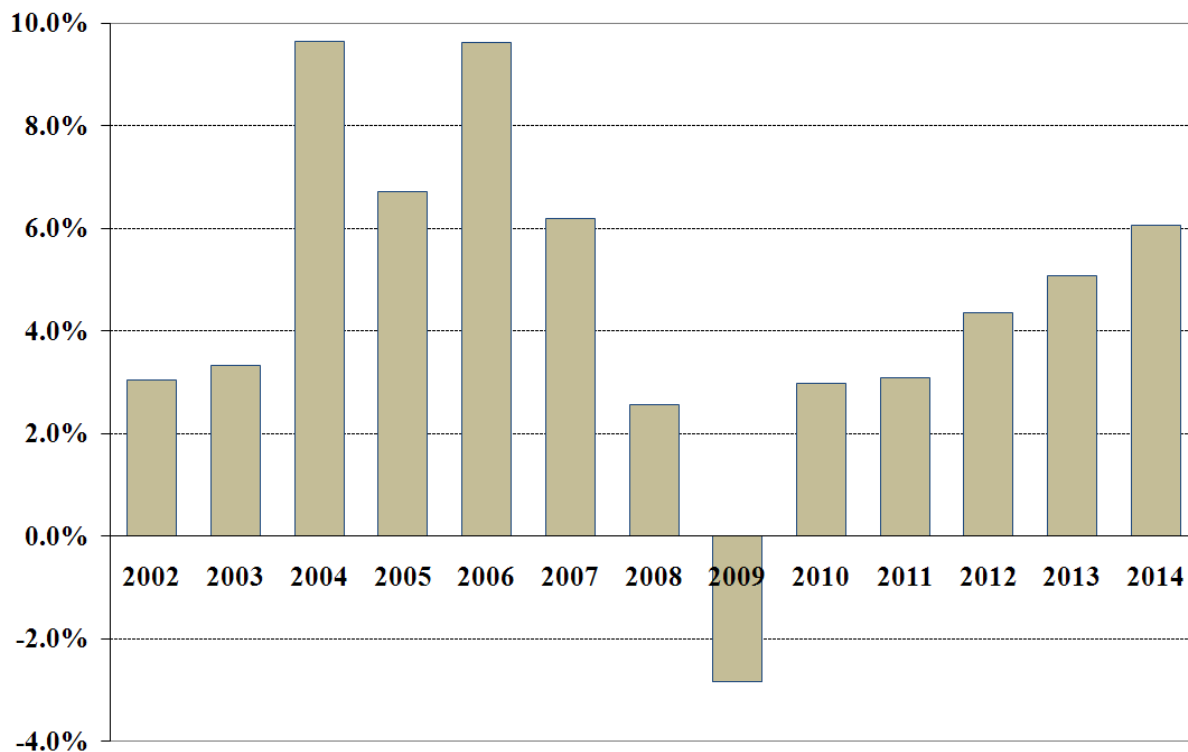
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- Forecast 2010-2014
- Is Structural Unemployment on the Rise?
- Alternative Forecasts

## Idaho Nominal Personal Income Growth



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**IDAHO  
ECONOMIC  
FORECAST  
2010-2014**

State of Idaho  
C.L. “BUTCH” OTTER  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the second decade of the 21<sup>st</sup> century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest economic expansions in Idaho's history. The 1990s saw a flood of new residents move into the state, expanding the population by an astounding 29% from 1990 to 2000. Idaho personal income nearly doubled during the same period, and the state's economy underwent structural changes that continue to this day.

One of the biggest changes is the rise of Idaho's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants as well as the emergence and expansion of a multitude of smaller companies pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector also was transformed. The past decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established to serve local shoppers as well as those from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. As is the case nationally, the service sector accounts for most of the nonfarm jobs in Idaho. While such traditional factors as increasing discretionary income continue to fuel the demand for services, other influences also have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place, traditional resource industries still play a major role in Idaho's economy. These industries are more resilient to downturns than in the past, but they are not totally immune from business-cycle effects. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s and once again are experiencing challenging economic conditions.

Other factors that are external to Idaho's economy will keep challenging decision makers. Public policy decisions made in Washington, D.C., affect the resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## INTRODUCTION

The national forecast presented in this publication is the November 2010 IHS Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the October 2010 IHS Global Insight baseline national forecast.

The recent history and near-term forecasted growth rates for Idaho nominal personal income are featured on the cover of this *Idaho Economic Forecast*. As the chart shows, this measure has swung widely this decade. It grew the strongest in the middle of the first decade of the new century, advancing 9.7% in 2004, 6.7% in 2005, 9.6% in 2006, and 6.2% in 2007. Growth slowed considerably in 2008 and actually declined in 2009. Idaho nominal personal income growth is forecast to improve after 2009, but its pace over the forecast period is not expected to repeat its previous strong performance. Specifically, it should grow an average of 4.3% annually from 2010 to 2014.

## FEATURE

Labor demand has been growing in the U.S., but the nation's unemployment rate has remained stubbornly high. Some analysts believe this is the result of a fundamental mismatch between the supply of labor in terms of workers' skills and the demand for labor in terms of employers' skill requirements. Such a mismatch between available workers and available jobs could increase the level of structural unemployment, which implies an increase in the lowest unemployment rate consistent with stable inflation. Both of these issues are examined in the feature article titled, "Is Structural Unemployment on the Rise?" It was written by Rob Valletta and Katherine Kuang, both of whom are with the Federal Reserve Bank of San Francisco.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. IHS Global Insight examines the effects of different economic scenarios, including the potential impacts of recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the United States are presented in the tables in the middle section of this report. Detail is provided for every year from 1997 to 2014 and for every quarter from 2008 through 2013. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2010.

Descriptions of the IHS Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## CHANGES

The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) September 20, 2010 estimates of Idaho quarterly personal income through the second quarter of 2010. In addition to adding the second quarter 2010 estimates, all the data series were revised back through the first quarter of 1990. These are the same estimates that were used in the previous forecast. The next round of estimates, which includes the third quarter of 2010, will not be published until late December 2010, which is too late to be included in



this forecast. The BEA plans to release personal income estimates through the fourth quarter of 2010 in March 2011. These estimates will be published in the April 2011 *Idaho Economic Forecast*.

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